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DIRECTORATE OF
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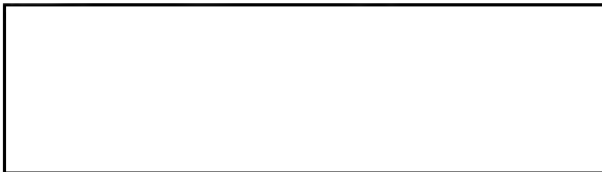
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LAOS: There are signs of movement in the talks to implement the peace agreement.

The joint groups tasked with working out the military and political details of the agreement resumed meetings on 15 March after a delay of several days caused by a dispute over procedural matters. A government spokesman said that the political group has discussed many political issues including the apportionment of portfolios in a new coalition government. He also reported that both sides had definitely agreed to form the new government by 23 March as required by the peace agreement. The group charged with working on military matters reportedly also made headway.

Despite these stirrings, no decisions on basic issues appear to have been made. These will require negotiations between Prime Minister Souvanna and senior Lao Communist envoys and also between Souvanna and leaders of the Lao right wing who will strongly object to losing any major portfolios to the Communists.

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INTERNATIONAL MONETARY DEVELOPMENTS: Official reaction to yesterday's agreement by the expanded Group of Ten in Paris has been favorable so far, but many details apparently still remain to be resolved.

Although the general outline of the agreement has been described, few details on implementation are available. French Finance Minister Giscard D'Estaing announced that the group had agreed that adequate resources would be made available for intervention operations to control fluctuation of the floating currencies, but indicated that central bankers would have to work throughout the weekend to decide on the size and modalities of intervention. Other important subjects have apparently been deferred for study. Thus, according to the French Finance Minister, countries with strong balance-of-payments positions will "review the possibility of removing or relaxing any restrictions on capital movements," and methods of reducing the volatility of Eurocurrency markets "will be studied intensively." The French and Dutch have announced new capital controls to cut back on speculative inflows, however, and Brussels reportedly will also soon announce new measures.

West German Finance Minister Schmidt described the meeting as "extraordinarily successful," and the cooperation, particularly between the European community and the United States, as "amazing." British Chancellor of the Exchequer Barber also commented on the "excellent spirit of cooperation." Japanese Finance Minister Aichi commended the US attitude and claimed that the debate on basic problems is over, but noted that the US is not formally committed to intervene in support of the dollar. During the meeting, the Japanese reportedly argued for a return to fixed exchange rates. These optimistic remarks probably were motivated by a desire

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to project confidence in the agreement in an attempt to forestall speculative pressures, when official exchange markets reopen on Monday.

The announced agreement in Paris helped the dollar strengthen in European interbank trading yesterday.

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PERU: President Velasco has recovered enough from his recent surgery to sign a decree terminating Prime Minister Mercado's mandate for limited executive powers as of 31 March.

If his health continues to improve, Velasco could soon attempt a temporary return to duty. If he should attempt a permanent comeback, however, he probably would come under heavy military pressure to retire this year, and even his staunchest supporters are likely to conclude that attempting to maintain him in office indefinitely would be a futile sacrifice of their own careers.

Mercado is next in line for the presidency, and moderate elements of the armed forces apparently would like to see him assume that role. Mercado may, however, have problems with the army's radicals and the close friends of Velasco who command key troop units. These elements might turn to force in an attempt to deny him the office.

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JAPAN: The trade surplus with the US is running behind last year's pace because of a continuing increase in Japan's imports.

Purchases from the US were up 44 percent in February compared with the same month last year, while Japan's sales to the US rose by only 16 percent. The trade surplus for the month was lower than last February's, and for the first two months of 1973 it was approximately \$300 million, compared with \$380 million during the same period last year. Results in February, however, must be viewed cautiously because value figures were affected by the currency realignment and normal trade patterns were disrupted somewhat by the uncertain conditions.

Japan's imports worldwide registered a strong gain in February, primarily because of large purchases of industrial raw materials. The total trade surplus was higher than in February 1972, however, due to continued steady export growth, unusually large ship exports, and the impact of the currency realignment. Foreign exchange reserves grew by \$1.2 billion and reached a record \$19 billion at month's end.

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THE KOREAS: The latest round of North-South talks ended in a stalemate, apparently because of Pyongyang's tougher negotiating terms.

Press announcements following three days of meetings this week suggest that the atmosphere was less cordial than in earlier rounds, and the absence of a joint statement strengthens the impression that the talks did not go well. Pyongyang demanded that Seoul agree to mutual arms reduction and a peace treaty as prerequisites for progress in the negotiations. Although these issues have been part of North Korean propaganda for some time, they have never been raised as conditions in the negotiations. Their introduction at this time underscores the importance Pyongyang attaches to the withdrawal of US and UN forces from the South and the curbing of the expansion and modernization of the South Korean military.

Pyongyang has been disappointed that the talks never moved Seoul to consider a reduction of military force structures and may now calculate that a hard line will make Seoul more responsive on these and other issues. The North Koreans may believe, moreover, that tough tactics will pay dividends, particularly since Seoul moderated its negotiating position late last year after Pyongyang launched an extremely harsh propaganda campaign. Recent North Korean propaganda has been equally critical of alleged South Korean military provocations and has included threats that hostilities could resume, if Seoul does not agree to some military accommodation. Pyongyang may have perpetrated the shooting incident in the DMZ on 7 March as a reminder to South Korea and its allies of the fragile nature of the detente.

The South Koreans rejected the new demands, but the North Koreans are not prepared to see the talks break down. They may be willing to lengthen the pause between sessions and cautiously escalate tensions on the peninsula to increase the pressure on Seoul.

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BELGIUM: Brussels is preparing to adopt changes in its defense arrangements that are causing concern among its NATO allies.

The Defense Ministry plans to reduce conscription terms to ten months for troops serving in Germany and to a year for those serving in Belgium; the previous terms were a year in Germany and 15 months in Belgium. The ministry also plans to return some 4,000 men from Germany to Belgium, and to pare current force levels, principally in administrative units, by approximately 6 percent. Resulting economies will be applied to improved training and equipment. This modernization, coupled with a proposed small increase in real defense expenditure, is intended to offset any over-all reduction in the armed forces' effectiveness.

Leftist-aggravated student demonstrations have forced the government to place in abeyance a proposed curtailment of deferments. With the concession, the government removed the most serious obstacle to adoption of its plan. The proposals of Defense Minister Vanden Boeynants, first presented to the Eyskens administration late last year, now have support from the three component parties of the Leburton coalition government formed last January. Although subject in part to parliamentary approval, the package should no longer be controversial, and it should be ready to take effect in 1974.

Although Brussels remains firmly committed to the Atlantic Alliance and is under no major domestic pressure to alter its basic defense policy, there are fears among the allies that Belgian cutbacks could be psychologically, if not physically, damaging to European security. West German officials, particularly, have expressed concern. Belgium has promised to consult with NATO on procedures bearing on international commitments before they take effect.

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PORTUGAL: Terrorists have set off three bombs to protest Portugal's overseas policy.] 1/2

The Revolutionary Brigades have claimed responsibility for the bombings, according to clandestine radiobroadcasts of the Patriotic Front of National Liberation. The Revolutionary Brigades apparently are the military arm of the Front, a dissident Communist exile group based in Algiers. The bombings of military installations in Lisbon on 9-10 March were the most violent terrorist activity in the past four years. The timing and location of the explosions, coupled with a Liberation Front statement that "it is impossible to wage an armed struggle of consequence without deaths," mark the first time any underground Portuguese militant group has gone on record in favor of sabotage which risks bloodshed.] 1

The Revolutionary Brigades have been setting off explosives since 1971. Their aim is to demonstrate opposition to the Caetano government, to the war in the African provinces, and to Portugal's link to NATO.] 2

Interior Minister Rapazote on 12 March warned against "giving enemies of the nation the freedom they seek to prepare a cover for terrorism." Rapazote made a target of a wide range of oppositionists who "continue to smile at anti-Communism" and ignore the duplicity and terroristic methods of Communists. Rapazote, like Portuguese deputies and editorialists, felt obliged to defend the government's overseas policy, thus acknowledging that the bombings were directed against that policy.] 1

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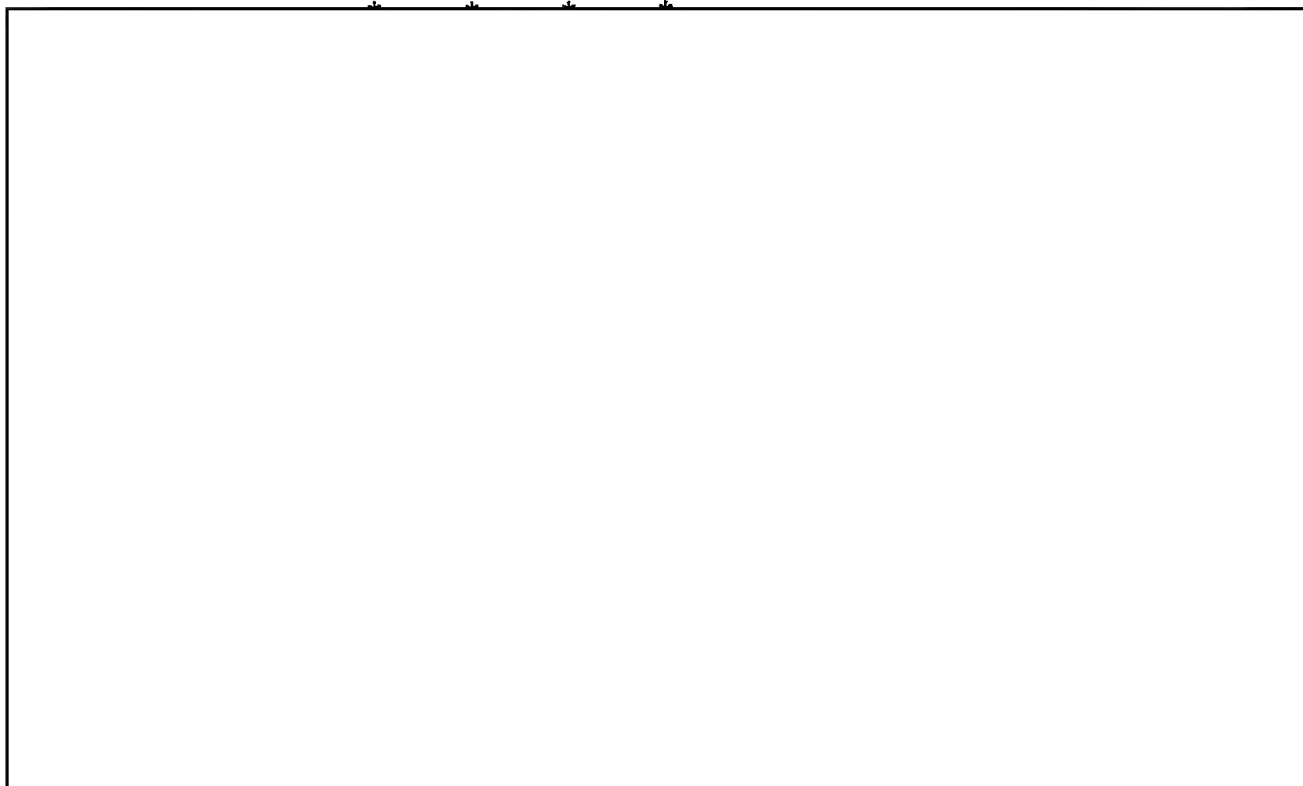
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TURKEY: Parliament has recessed once again after failing to elect a president. Two more inconclusive ballots--the fifth and sixth since the presidential contest began on 13 March--were cast yesterday. Voting will resume on 19 March. Justice Party candidate Tekin Ariburun increased his commanding lead over former general staff chief Faruk Gurler and a third candidate in the voting on Friday, but the military's opposition to Ariburun will probably prevent him from getting the majority needed to win. The search for a compromise candidate acceptable to both the politicians and the generals is continuing. Serious consideration is apparently also being given to an effort to amend the constitution to permit the extension of the term of incumbent President Cevdet Sunay.

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